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SENSITIVE
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USTR for Bennett Harman

E.O. 12958: N/A

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SUBJECT: ECUADOR MODIFIES BALANCE OF PAYMENTS SAFEGUARD MEASURES

REFTEL A: Geneva 500
B: Quito 60

¶1. (U) Summary: On June 23, the GOE announced modifications to its import measures implemented in January in response to what it termed a balance of payments (BOP) crisis. Based on recent commitments in WTO BOP Committee meetings, the GOE announced that it was transitioning most of its "safeguard" quota measures to tariffs. The GOE also intends to reinstate trade preferences for its Andean Community (CAN) trading partners. End Summary.

¶2. (U) Minister for the Coordination of Production Nathalie Cely and Minister for Industries and Productivity Xavier Abad announced on June 23 that the GOE was adjusting its import safeguard measures implemented in January. The measures imposed quotas and tariffs above WTO bound rates on imported products in response to a GOE-declared BOP crisis (reftel A). Under the original measures, 627 products (mostly consumer goods) were affected: 356 by tariff increases and 271 by quotas. The measures also removed any tariff preferences granted to Ecuador's trading partners, requiring them to pay MFN tariffs in addition to the safeguards. During the WTO BOP Committee meetings which ended on June 4, the GOE committed to replace most of its quantitative restrictions with price-based measures by September 1 (reftel B). The revisions announced yesterday move all but 20 products from quotas to tariffs. The change will take effect on June 25.

¶3. (SBU) The revisions affect 251 products; the 356 products that had duties imposed in January are not affected by this change. Of the 251 products that will no longer be under quota, 234 must pay a 12 percent tariff charge on top of the pre-"safeguard" tariff level. The remaining 17 items include: 10 automotive products (parts of car assembly kits) which must pay a 3% tariff charge; apples, grapes, and pears, which must pay a 10c/kilo specific tariff; and four tariff lines for tires which must pay a 80c/kilo specific tariff. The 20 products remaining under the quota system will reportedly not be announced until late on June 24. Commoff conversations with contacts indicated that these products are used primarily in what the GOE considers its "strategic industries." One GOE official indicated publicly that these products might include raw materials such as plastics. He maintained that quotas would be retained to ensure that prices for these products do not rise.

¶4. (U) Ministers Abad and Cely also announced that a decision on whether to restore trade preferences for Ecuador's CAN partners was imminent. (Note: Ecuador's trade measures affected its CAN partners inordinately, as they went from paying zero tariffs to MFN plus tariff charges, on some products reaching a total of 60%. CAN members requested the CAN rule on the validity of Ecuador's measures; the CAN said that Ecuador could maintain its safeguard measures but must reinstate CAN preferences.) Minister Cely noted

that, as the head of Ecuador's trade committee COMEXI, she recommended the country comply with the CAN decision.

¶15. (SBU) Comment: It is positive that the GOE is moving quickly to comply with its commitments in the WTO BOP Committee to switch to price-based measures in place of quotas. A decision at the same time to reinstate CAN preferences may or may not be problematic in the WTO. End Comment.

HODGES